

Message Text

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DEPT ALSO PASS TREASURY FOR SYVRUD

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TAGS: ECON, EFIN, PO
SUBJECT: GOP-IMF NEGOTIATIONS

1. (U) GOP-IMF NEGOTIATIONS RECEIVING HEAVY PRESS PLAY. MUCH OF THIS COVERAGE FOCUSES ON STATEMENTS BY MINISTER OF FINANCE VITOR CONSTANCIO. DURING APRIL 6 NATIONAL ASSEMBLY DEBATE ON GOP 1978 BUDGET PROPOSAL, CONSTANCIO REFERRED EXTENSIVELY TO IMF NEGOTIATIONS. HE EMPHASIZED THAT THE NEGOTIATIONS WERE UNAVOIDABLE GIVEN PORTUGAL'S NEED FOR EXTERNAL FINANCING. IN FACT, HE NOTED, THIS FINANCING WAS EVEN MORE IMPORTANT THAN PREVIOUSLY BELIEVED BECAUSE REVISED 1977 PRELIMINARY RESULTS WERE WORSE THAN ANTICIPATED. FOR EXAMPLE, THE CURRENT EXTERNAL DEFICIT LAST YEAR APPARENTLY WAS 57 BILLION ESCUDOS (1.5 BILLION DOLLARS AT E 38.277/ DOLLAR) RATHER THAN PREVIOUSLY ESTIMATED 53 BILLION ESCUDOS (1.38 BILLION DOLLARS). ALTHOUGH SYMPATHETIC INTERNATIONAL COMMENTARY HAS RECENTLY PROVIDED THE GOP GREATER MANEUVERABILITY VIS-A-VIS THE FUND, HE CONCEDED THAT THE NEGOTIATIONS ARE DIFFICULT. CONSTANCIO STATED THAT THE GOVERNMENT WOULD NOT ACCEPT JUST ANY AGREEMENT, BUT THAT SUSPENSION OF DISCUSSIONS OR UNDUE DELAY IN CONCLUDING
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AN AGREEMENT WOULD PROVE MORE COSTLY THAN REACHING AN ACCORD PROMPTLY.

2. (U) CONSTANCIO DISCUSSED IMF AGAIN DURING RADIO INTERVIEW ON SUNDAY, APRIL 9. HE EMPHASIZED THAT THE GOP ACCEPTS THE NEED FOR AN AGREEMENT GENERALLY ALONG THE POLICY LINES BEING PROPOSED BY FUND. THE PROBLEM, HE

ASSERTED, REALLY CENTERS ON THE SEVERITY RATHER THAN THE TYPE OF POLICY MEASURES TO BE ADOPTED. PART OF THE PRESENT CONFLICT, HE CLAIMED, ARISES BECAUSE THE IMF SEEMS TO HAVE HARDENED ITS POLICY RECOMMENDATION SINCE LAST NOVEMBER. HE SUGGESTED THAT THE GOP MAY EVENTUALLY HAVE TO APPROACH THE MAJOR PARTICIPANTS IN THE MULTILATERAL LOAN PROGRAM TO SEEK MODIFICATION OF THE FUND'S POSITION OR TO DEVELOP AN ALTERNATIVE SOURCE OF FINANCING FOR PORTUGAL. HE RAISED AGAIN POSSIBILITY OF A MARSHALL-TYPE PROGRAM FOR PORTUGAL, BUT ADMITTED THAT HE SEES NO REAL ALTERNATIVE TO AN AGREEMENT WITH THE FUND.

3. (C) COMMENT: EMBASSY CONTINUES TO BELIEVE THAT GOP APPRECIATES NEED FOR AN UNDERSTANDING WITH THE FUND. CONSTANCIO STATEMENTS SEEM DESIGNED TO ACHIEVE TWO OBJECTIVES. FIRST, TO PUT PRESSURE ON IMF IN ORDER TO OBTAIN TERMS THAT ARE MORE ACCEPTABLE THAN THOSE NOW PROPOSED BY FUND MISSION. SECOND, TO CONVINCE THE PUBLIC THAT THE GOP IS PRESSING FOR THE BEST POSSIBLE AGREEMENT RATHER THAN SIMPLY CAPITULATING TO IMF "DEMANDS." GOP AND IMF ARE, UNDERSTANDABLY, HAVING DIFFICULTY CONCLUDING AN AGREEMENT. LACK THUS FAR OF A GOP REQUEST TO US FOR DIRECT USG INTERVENTION SUGGESTS, HOWEVER, THAT NEGOTIATIONS HAVE NOT YET REACHED CRITICAL IMPASSE.
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